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Remarks by Nicholas E. Calio
President and CEO, Airlines for America (A4A)

(*As prepared for delivery*)

I'd like to start by commending the FAA for the job they've done in managing the difficult situation in Chicago as well as it could be managed. Administrator Huerta and his senior staff emphasized collaboration and an abundance of communication. It really helped. I appreciate the opportunity to be here at IAC.

Our business is truly global – becoming more so every day – so this is the appropriate forum to take stock of international trends, their implications, and the differences in how aviation and airlines are treated around the world.

U.S. leadership in aviation is being challenged, many would say overtaken.

For example, global airline traffic activity is shifting East, with fast-growing international airlines, such as the Middle Eastern and Chinese carriers, emerging as top airlines in terms of revenue and capacity.

Rapid growth in the last decade has resulted in Middle East carriers' share of all international capacity increasing from 2 percent in 2002 to 11 percent in 2012. That equals the share of U.S. wide body-operators, which has decreased from 14 percent to 11 percent in the same period.

Air China, China Southern and China Eastern were among the top 20 airlines by annual revenue in 2012. In 2002, they were nowhere near that list.

Foreign competitors have also displaced U.S. carriers from the top of the international cargo rankings, despite significant growth by integrators.

That shift has caused predictable consternation in the U.S. and Europe, and led to the trading of accusations about unfair advantage, subsidies and the like.

While on its face, you can make a good case that the charges are justified, A4A decided that the changed environment for global commercial aviation, and the significant increase in competition from international carriers, required us to undertake an in-depth, objective examination of the competitive advantages, if any, that foreign carriers enjoy.

We examined ten years of publically available information.

Based on that data and information, some clear facts and trends are apparent that apply not only to U.S. airlines – but will be very familiar to carriers in Europe as well.

Putting aside for a moment any question of whether an “advantage” is unfair, there are very clear reasons why these non-U.S. carriers are growing the way they are.

Part of it is that they are in growing or evolving markets.

More fundamentally, it is because their governments have recognized the increased and critical role global air traffic will play in their future economic development. They have developed clear national, strategic aviation plans that create integrated aviation eco-systems.

These aviation ecosystems consist of airlines, airports, airport concessions such as, duty free, ground services, maintenance, aircraft leasing, aircraft financing and aviation policymakers that work under the same government umbrella to serve a common government goal and purpose: **to drive overall economic growth**.

Let's look at Dubai as an example. There, one person, the Sheikh Ahmed bin Saeed Al Maktoum, serves as president, chairman or CEO of Emirates Airline Group, Dnata (cargo, ground handling and catering), Dubai Airports, Dubai Aerospace Enterprise (maintenance, repair and aircraft leasing), Dubai Duty-Free and the Dubai Civil Aviation Authority.

I'm not being *critical*, I'm being *clinical*. This is *brilliant*. This infrastructure enables the carrier's growth, lowers flight delays and costs, and delivers newer and higher quality infrastructure. The closely integrated Dubai aviation sector strives for maximum throughput since costs for one segment is revenue for another.

The bottom line is that Middle Eastern carriers benefit from smart, forward-looking governmental strategies to stimulate passenger growth by setting low airport fees, low corporate taxes and minimal passenger-related fees and taxes which drives significant economic benefit to the host countries.

Middle Eastern and Chinese carriers have other structural business model advantages such as low labor costs (e.g., ~36 percent lower average employee costs) and relaxed labor regulations.

These benefits combine to create low-cost and more resilient business models.

Whether these state-owned enterprises are subsidized, I will leave for another day. Today, I want to address the government policy under which U.S. carriers operate. Again, many of these observations apply to European carriers.

I won't suggest to you that the same setup that you have in the Middle East or China is practical in the U.S. What is practical, however, is to have policies in place that better enable the U.S. industry to compete globally. At a minimum, we should have a government that agrees to do something more than no harm – although some foreign competitors will continue to sustain relative cost advantages driven by their local market conditions, such as employment.

However, differences caused by favorable foreign government financing and local policies should be in part neutralized by the U.S. government normalizing our aviation policies and taxes, to go some way to level the competitive playing field.

Why is this important? Simple – more jobs and a stronger economy.

U.S. operated flights create 60 percent more U.S. jobs for each flight than are created by a foreign aircraft and crew; so there is a big employment opportunity cost to our country if U.S.

airlines cannot take advantage of the increase in service to and from the U.S. as global aviation continues to grow.

That is why A4A has routinely and consistently called for a National Airline Policy to address the industry's tax, regulatory and infrastructure challenges.

In that regard, there is progress. When I joined A4A nearly four years ago, I asked one of my new staff who our key allies were on the Hill. I got a pretty quick answer...NONE.

That's no longer the case. We now have Members of Congress who understand that airlines are more than efficient tax collectors. Let me give you a few examples:

- Senators John Thune and Claire McCaskill, who led the U.S. efforts to avoid an illegal overreach to tax carbon emissions by the EU.

- House T&I Chairman Bill Shuster, Ranking Member Nick Rahall and Reps. Peter DeFazio, Frank LoBiondo, Rick Larsen and Tom Graves led the effort in the House to make airfares more transparent by enabling travelers to clearly see how much of their advertised ticket price is in reality going to Washington in federal taxes.

Those legislators know that current law, which requires airlines to include taxes in the base advertised price, makes airfares appear artificially higher and less competitive when compared with other modes of travel, which ultimately depresses demand and impacts jobs and the economy.

That bill notably passed the House on a **UNANIMOUS VOICE VOTE.**

You also have Reps. Richard Hudson and Cedric Richmond, along with Chairman Michael McCaul and Ranking Member Bennie Thompson, who took action to protect airline customers from the federal government's unlawful implementation of a 125 percent increase in the passenger security tax. Their bill passed on a roll call vote of 423-0.

We are heartened by the House action and that the bill has already moved to committee in the Senate. That said, we have also filed a lawsuit to protect our passengers, who already pay more than their fair share of aviation taxes and fees. Today, the aviation industry and its customers are subject to 17 unique taxes and fees, which totaled over $19 billion last year – a record high.

The House of Representatives also rejected the Administration's efforts to substantially increase Immigration and Customs fees.

The entirely bipartisan nature of these actions and these votes in this Congress speaks volumes, except apparently to those writing the regulations…

So, we are encouraged that we are not the only ones saying **ENOUGH IS ENOUGH**.

That said, a major problem still exists as was pointed out by one of my Board members last month at our Commercial Aviation Summit – there are still those who seem to miss the pre-1978 days, when this industry was in fact highly – and admittedly – regulated.

Currently, our supposed deregulated environment is dismal. There are old, duplicative regulations that could NOT withstand a serious examination of their benefit, yet defy elimination or modification.

Despite supposedly being deregulated, we work with a regulatory agency that wants to know – in fact **DEMANDS** to know – how we make money, down to what we charge for optional services. Ironic, given how we are singled out as the single mode within a transportation industry with other modes that do not have the same requirements.

Consider Amtrak, subsidized by our own government to the tune of approximately $50 per passenger annually. Unlike our member airlines, Amtrak does not offer its customers a complimentary soft drink. Nor does the government ask how much it made for the sodas it sells.

We are still operating in an environment where DOT thinks it needs to protect customers from airlines. The irony is that DOT is making some things worse for customers.

Take the tarmac delay rule. According to GAO and independent studies, the rule has caused more harm than good. Yes, fewer passengers face lengthy tarmac delays. The downside, about 400,000 passengers per year don't get to where they want to go because of cancellations prompted by carriers seeking to avoid overly-punitive fines from DOT.

According to the American Aviation Institute, DOT's first two consumer protection rules will add $5 billion to the cost of air travel a year, or about $17 per round-trip ticket.

Now, we have the proposed Consumer Rule 3, which while presented as a consumer rule, is actually a front for the Global Distribution Systems, and seeks to force airlines to provide their information and sell their products through all channels.

It would be like the government telling Apple that it has to provide pricing on all of its products and accessories through Best Buy. As the commercial says… "that's not how this works; that's not how any of this works."

How this *DOES* work is to let the free market work. Today, the market determines airline pricing – not airlines. Customers decide with their wallet every day what they are willing to pay for. As they do **WITH EVERY OTHER BUSINESS.**

Treating airlines differently than any other global business does nothing to further our ability to compete and contribute to the economy.

Look, I don't relish criticizing our regulators. But, we would not be doing our job – and representing the frustration of our members – if we did not call it as we assess it. We work, like and cooperate with the people, but at some fundamental level, we are not breaking through.

Fortunately, the upcoming FAA Reauthorization creates great opportunity to make changes, including enactment of the key elements of a National Airline Policy.

Chairman Shuster has said he wants the FAA Reauthorization to be transformational. It **NEEDS** to be.

A4A’s goal is to fix what can be fixed and fixed most quickly. That’s why we will pursue elements of the National Airline Policy in the reauthorization process.

Specifically, we want to first stop any – and I **STRESS ANY** – increase in taxes or fees.

And then, to continue rolling back the tax burden as we did last December with the elimination of the Aviation Security Infrastructure Fee.

We would like to rationalize our regulatory burden, and more importantly, put in place a framework for regulatory decision-making that would; among other things:

- Ensure that future regulations are based on sound science and technical information, an assessment of their economic impact, and reasoned cost-benefit analysis, including objective guidance from independent experts.

- Require DOT and FAA to complete a review of federal aviation regulations, in consultation with industry stakeholders and provide recommendations to Congress on regulations that should be modified or eliminated.

Finally, for FAA Reauthorization to be transformative, everything has to be on the table, including ATC reform and getting NextGen up and running.

We clearly are **NOT** where we need to be. A look at the many DOT Inspector General and GAO reports illustrates that we are woefully behind. The current FAA leadership is working with industry and doing everything it can to move forward quickly.

Nonetheless, we have to seriously examine the status quo, and do so w/ an open mind. We have the best pilots and best air traffic controllers in the world. We need to see if we can give them a better system to operate in.

We have to ask ourselves, can we open the door to better, faster, innovation and efficiency by making fundamental change.

To that end, A4A is in the process of:

- Benchmarking and developing a fact-based assessment of the financial, operational and governance factors of the U.S. air traffic control system against other models including NavCanada, the UK and other European models.

- Evaluating the risks and opportunities for specific elements of reform to the U.S. system, and

- Developing U.S. ATC options, highlighting economic benefits and implications for NextGen, as well as identifying the governance impact of potential reform.

We want to develop the facts and let the facts lead to conclusions, not vice versa. We have a great aviation system – the safest in the world. It can be – and needs to be – so much better. We need to work toward that end.

And we need to do it together. Thank you.